



GUD Holdings Limited

Chairman's Address

62<sup>nd</sup> Annual General Meeting

Thursday, 24 October 2019

RACV Club

501 Bourke Street, Melbourne

Ladies and gentlemen, my address to you today covers five key topics.

I will firstly speak about the importance of Safety at GUD.

I would then like to address the Long-Term Strategy; the positioning of the portfolio of the Group, the efforts that are being made to ensure sustainability of the business, identifying and managing risk, and the development of our people.

I will then touch on the Financial Performance of GUD in the 2018-19 financial year which can best be described as a solid performance, in difficult trading conditions.

Penultimately, I'd like to address you on Board developments.

Finally, following a review of aspects of the operations and financial position of the Company from our Managing Director, Graeme Whickman, I will provide commentary on the Outlook for the current financial year.

## **1. Safety**

Turning now to Safety.

Safety is a key priority for GUD.

GUD maintained a strong safety focus during the year and continued to develop and implement initiatives intended to drive a strong level of engagement, ownership and accountability for health and safety.

During the year your Board visited four major operational facilities. In conjunction with holding 'town hall' meetings with all available staff, directors conducted site safety walks. These opportunities allow board members to get closer to the operations, understand the cultural aspects and hear from staff members on a range of matters and views held in the workplaces.

Across all of GUD, we saw a small lift in the lost time injury frequency rate (LTIFR). This was due to an increase of 1 lost time injury case (LTI) over the 4 experienced in 2018. Positively, the GUD LTIFR rate of 3.4 is less than half of the Safe Work Australia warehousing and distribution industry sector benchmark rate of 8.6.

Our attention remains focussed on further improvements with the rollout of an online safety reporting application (Vault), increased safety and wellbeing education and the outstanding participation in the GUD safety and innovation awards.

We have been active in the past year in the area of employee mental health, engaging an external provider (Beyond Blue) in sessions designed to increase awareness and understanding amongst employees.

The focus is in areas of anxiety, depression and mental health, training in Mental Health First Aid, the benefits of a mentally healthy workplace and the external resources available, including our Employee Assistance programme.

## **2. Long Term strategy and sustainability**

### ***Portfolio***

Turning now to Strategy.

The GUD business portfolio is now centred on the core automotive and water businesses. Unlike the last two years, the current year did not see further business portfolio disposals and we now have a core portfolio, which we will grow both organically and by acquisition.

We completed the previously announced acquisition of Disc Brakes Australia on 2 July 2018 and DBA is performing well. In the remainder of the year, we explored and evaluated several other acquisitions which we did not pursue, given they would not deliver compelling value for GUD shareholders.

The acquisition appetite hasn't changed and remains strong, as has the funding availability and consolidation opportunities. We remain committed to attractive automotive acquisitions; however, we will choose to secure new businesses with a clear integration and margin uplift pathway.

GUD is positioned as a predominantly automotive aftermarket business.

Whilst a slow-down in the new vehicle sales has been reported, the Automotive Aftermarket is still a positive and defensible position for GUD to operate within.

GUD believes this is an inherently attractive industry for the following reasons:

1. Firstly, the addressable market (what we call the 'Car parc') is growing, underpinned by population growth, and is expected to grow at around 1 - 2% per annum. Currently, the 5-year-old plus Car parc is in excess of 15 million vehicles.
2. Secondly, a shift in the Car parc composition complements our product portfolio, in particular, the growing composition of SUVs and pick-ups within the Car parc plays to strengths in businesses such as BWI and DBA.
3. Thirdly, inter-business synergies exist within the automotive business due to operational commonalities, including common customers, common suppliers and similarities in respective supply chains.
4. Fourthly, the ability to grow through acquisitions. GUD has the internal resources, and financial strength to undertake further complementary acquisitions.

GUD also recognises the long-term future challenge in terms of Electric and Autonomous vehicles.

As part of the recent national debate on electric vehicles, GUD modelled the potential adoption rates leading up to 2030.

We concluded the addressable market of 5-year-old plus vehicles with internal combustion engines (ICE) would remain largely consistent with today's 15 million units, as currently the vast majority of new vehicles are powered by an internal combustion engine.

GUD already generates less than 50% of its automotive revenue from products discrete to ICE vehicles and can see a strong and evolving aftermarket within the future EV landscape.

It remains the case that each of GUD's larger automotive businesses continues to enjoy a strong and unique market position, with market-leading brands enjoying high brand equity - in recent brand surveys, we saw many of our brands in the top quartile of their respective segments - and a healthy track record of both product and service innovation and pricing power.

The Board and Management have been engaged in a portfolio and individual business unit strategy refresh in the second half of the year. This activity included an overseas study tour to Israel to better understand the innovation approach applied by companies, along with the potential commercial application of technologies in both the Water and Automotive segments. We concluded that we remain satisfied with the current business portfolio and we remain willing to make logical automotive acquisitions.

The year also saw much activity around building a foundation within Davey for profitable mid-term growth. We are encouraged with the early progress at Davey.

While Revenue and EBIT growth was modest, the EBIT result contained a significant amount incurred in the commercialisation and market introduction of new products, underscoring that we have been reinvesting for future growth.

We have started to observe some early green shoots of the Davey product creation outcomes.

Davey has now been successful in securing farm trials of Modular Water Treatment products (MWT) at one of the world's biggest dairy cooperatives. Davey sold out its entire allocation in Europe of its new, smarter and more compact Nipper chlorinator and delivered the launch of the Tank Sense product.

Davey remains committed to its recently approved strategic plan and now is in execution mode.

This focuses management efforts on the strategic priorities of supply chain optimisation, commercialisation of product innovation, diversifying channels to market, and improving people and culture outcomes.

The Board remains firmly supportive of Davey, which has an innovation agenda focussed on the commercialisation of strong product development initiatives and addressing the need to establish a pattern of sustainable revenue and profit growth.

## **Risk**

Turning to risk, 2018-19 represented the first full year since the Board created a separate Board committee to focus on Risk and Compliance.

Under the inaugural Committee Chair, Ms Anne Templeman-Jones, a thorough review of risk appetite and the tools used to identify, analyse, assess, manage and monitor risk throughout the Group was undertaken during the year.

As a result, the Group introduced a new cloud-based interactive Risk Management tool using the software platform Alyne.

The platform acts as a key risk register, tracks whether risks potentially breach the risk appetite guidelines, whether compensating controls are in place to mitigate the net risk to an acceptable level, acts as an action plan register, and accommodates recording and following actual risk events.

## ***Innovation***

GUD is committed to innovation.

Our award-winning innovation program delivers a relentless focus on the customer.

We tap into the creativity of our people to deliver better customer experiences. From the smallest adjustment to an existing process to brand-new business units that disrupt markets, innovation is instrumental in future-proofing our businesses.

Each business has its own innovation and product development framework, one that is tailored to its specific needs. Several group-wide initiatives tie these individual programs together under a collective banner dedicated to collaboration and shared learning.

The Innovation Awards, held in conjunction with the Annual Safety Excellence Awards, engenders a sharing of information throughout the Group and a spirit of friendly competitiveness amongst our staff to be recognised for introducing compelling innovative products and services. One entry was Projecta's Intelli-RV, a comprehensive power management system solution to suit caravans and recreational vehicles, providing easier, safer installation and battery/solar management. Here's a short video.

## ***People***

Turning now to People.

Across each of the GUD companies, we strive to create a culture of professionalism, excellence, high performance, inclusion, respect, integrity and innovation.

We want our workplaces and employees to embody these values.

Each year, GUD conducts an annual employee engagement survey across the business. In seven of the seventeen areas measured we showed further increase against the strong 2018 results. The survey outcome for employee engagement in the IBM Kenexa survey successor Qualtrics, rated GUD at 75%, in the top 30% of the global benchmarks. Graeme will speak more to this later.

Diversity is seen as a key driver of innovation and company performance.

In the annual employee engagement survey GUD received a 76.8% favourable response for diversity related questions, placing us inside the top 30% of the global benchmark norm.

We are developing and implementing a diversity and inclusion program that strengthens the businesses' open culture by ensuring respect and inclusiveness.

The recruitment of a Chief People Officer in May 2019 gives greater emphasis to talent development and to realising the full potential of the human capital of GUD.

Training and development is a critical element of our workforce planning.

We support development by training our employees within the workplace as well as supporting them to undertake further education. Looking forward, we are implementing the following programmes over the current year:

- Talent and succession plans for critical roles and key talent
- Learning and development plans to strengthen the effectiveness of leadership and leadership teams across the businesses
- Deployment of a Speak Up Policy in pursuit of an open culture where all employees feel able to, and do, raise concerns where they exist

GUD businesses also offer an employee assistance program, provided on a confidential basis by an independent third party. As part of this program, employees are encouraged to discuss and address work-related or personal matters they may require assistance with.

### ***Sustainability***

This year GUD published its first Sustainability Review, focussing on environment, social and governance aspects. GUD's Board sees this review as an opportunity to outline the impact GUD has on the environment, its people and the communities we operate in, as well as identifying and discussing some of the longer-term sustainability consequences for the Company.

We undertook our first materiality assessment to identify, prioritise and validate the topics that matter most to our stakeholders and our businesses.

Global Reporting Initiative (GRI) Standards were drawn-on to guide the content and scope of the reporting on those topics.

The topics included health and safety, product safety and quality, compliance, innovation, equality, human capital, sustainable procurement and water management.

We recognise this is a first significant step in this journey. GUD intends to continuously enhance its disclosures utilising the GRI Standards to improve the comparability of our reporting. We are extending our materiality assessment to include external stakeholders seeking to ensure that our sustainability disclosures remain relevant to the business and stakeholders. This is critical in gaining a comprehensive and ongoing understanding of the changing expectations and interests of stakeholders regarding sustainability-specific risks and opportunities, including the potential impacts of climate change.

### **3. Financial Performance**

Turning to Financial Performance.

2018 – 2019 was characterised as a year where the economic and industry challenges constrained the larger automotive gains seen in previous years.

Although robust growth was achieved by GUD it must be recognised this was led largely by the acquired businesses, with a modest contribution from our continuing businesses.

Thus, in 2018-19, GUD's performance was considered solid in the face of challenging business conditions.

Overall, GUD delivered just over 9% revenue growth to \$434 million.

Underlying EBIT from Continuing Operations grew 6% to \$89 million.

Net Profit After Tax (NPAT) was \$60 million, an improvement of 13% excluding a beneficial tax provision release.

Graeme will speak to segment growth during his presentation.

Overall basic Earnings Per Share reached a record high of 69 cps. This was reflected in the final dividend payment to our shareholders, who in respect of this financial year received a record high 56 cps (excluding special dividends), 8% higher than the previous Financial year and the fifth consecutive year of dividend growth.

Our dividends continue to be fully-franked, ensuring our shareholders get the benefit of taxes paid at the corporate level.

Our balance sheet remained strong with gearing, being net debt against net debt and equity, of approximately 32%, robust interest cover and available banking lines well in excess of \$80 million, which can fully support future bolt-on acquisitions.

Our banking facilities expire in July 2020 and we have initiated facility renewal discussions with financiers and expect to complete the renewal towards the end of this calendar year.

#### **4. Your Board**

Turning to Board matters.

Assuming the role of Chair just under two years ago, we prioritised the appointment of the new Chief Executive Officer / Managing Director, Mr Graeme Whickman who joined 1 October 2018.

We are a small board of four non-executive directors plus the Managing Director. Each non-executive director chairs one of the Board sub-committees and all directors attend all committee meetings.

Thus, we are a tight, cohesive Board, and one that interacts effectively with Management.

This was borne out in an externally-facilitated Board effectiveness and performance evaluation commissioned earlier in the year.

Overall, the external evaluation confirms that the Board is performing effectively and representing shareholders well.

The Board is aware of certain skills and experience that could be added to enhance performance. We are keen to recognise that gender diversity on the Board brings an additional, positive dimension.

Our plans for gender diversity at Board level are set out in our Diversity Policy. We state that we are targeting gender representation on the Board to be similar in proportion to that across the group as a whole.

On the latest numbers, we have broadly 30% females in our workforce, that is our target at Board level.

To achieve that, the next Board appointment will be female, and is expected to occur in the first half of calendar 2020. This will bring our female representation on the board to over 30%.

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In conclusion, there is no doubt that we now have a more predictable portfolio of businesses with substantial growth potential and which should continue to perform solidly in the current financial year.

Before addressing that particular topic on Outlook, I invite GUD's Managing Director, Graeme Whickman, to provide you with some more perspectives on the financial, people and operational performance.

Thank you, Graeme.

Prior to addressing the various items in the business of the meeting I will provide the customary outlook for the current financial year.

## **5. Outlook**

Now for the current year's outlook.

GUD remains well positioned for the medium to long term horizon.

The automotive division maintains strong brands, products and customer service in support of a large and proliferated Car parc, which GUD believes is strongly defensible.

We are also pleased with recent multi-year preferred supplier agreements and will work to provide strong partnership outcomes as we move forward.

Davey has a clear strategic vision which has been well communicated to all the critical stakeholders and is executing its plan with urgency.

We expect to see continuing green shoots as Davey progresses over the next 24 months.

In 2019-20 we expect further revenue growth in both the automotive and water businesses, although economic sentiment and recent demand suggests growth will be modest. Domestic input inflation and a weaker dollar will be offset to some degree by any pricing increases across our business units.

We will continue our innovation, new product development and acquisition activity, as we remain committed to ensuring we have the right mid-term foundations in place for long-term growth and shareholder value.

In this current economic environment, and, while organic growth is expected from the automotive and Davey businesses, operational fitness will also be a key work stream. Therefore, we expect modest Underlying EBIT growth in 2019-20 and continuing solid returns to shareholders.

Our businesses are close to our end-users and customers, framing new products and services through a deep understanding of real customer needs. Through this we are uniquely placed to grow organically and to deliver quality returns sustainably.

Thank you for your continuing interest in, and support for, GUD.

It is now time to conduct the business of the meeting.

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